

**CITY OF LENOX, IOWA**  
**INDEPENDENT ACCOUNTANT'S REPORT**  
**FOR THE PERIOD**  
**JULY 1, 2012 THROUGH JUNE 30, 2013**

CITY OF LENOX, IOWA  
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CITY OF LENOX, IOWA  
OFFICIALS  
June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brent Wise	Mayor	January, 2014
Robert Halligan	Council Member	January, 2014
Sandra Donaldson	Council Member	January, 2014
Clint Curtis	Council Member	January, 2016
Mike Bowman	Council Member	January, 2016
Floyd Donehoo	Council Member	January, 2016
Doug Polen	City Administrator	Indefinite
Dawne Bowman	City Clerk	Indefinite
Carl Sonksen	City Attorney	Indefinite

# Gronewold, Bell, Kyhnn & Co. P.C.

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## INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT

To the Honorable Mayor  
and Members of City Council

We have performed an examination of the City of Lenox, Iowa pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Lenox, Iowa for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.

To the Honorable Mayor  
and Members of City Council

9. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
11. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Lenox, Iowa, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Lenox, Iowa, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lenox, Iowa and other parties to whom the City of Lenox, Iowa may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Gmewold, Ben, Kuhn & Co. P.C.*

Atlantic, Iowa  
December 5, 2013

## DETAILED RECOMMENDATIONS

## CITY OF LENOX, IOWA

### Detailed Recommendations

For the period July 1, 2012 through June 30, 2013

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Cash - handling, reconciling and recording.
- (2) Receipts - opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements - purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll - recordkeeping, preparation and distribution.
- (5) Utilities - billing, collecting, depositing and posting.
- (6) Financial reporting - preparing and reconciling.
- (7) Journal entries - preparing and journalizing.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations - The cash balances in the City's general ledger were not reconciled to bank account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation - The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (C) Deposits and Investments - The City has not updated its written investment policy to be in compliance with Chapter 12B.10B of the Code of Iowa. The City's existing investment policy was adopted in accordance with Chapter 452 of the Code of Iowa. In addition, the City's resolution naming depositories is not sufficient to cover the City's current deposits and the depositories listed are currently operating under different names.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

## CITY OF LENOX, IOWA

### Detailed Recommendations - Continued

For the period July 1, 2012 through June 30, 2013

- (D) Unclaimed Property Report - The City appears to have unclaimed property in accordance with Chapter 556.1(12) of the Code of Iowa, but did not report the unclaimed property to the State Treasurer annually by November 1 as required by Chapter 556.11 of the Code of Iowa.

Recommendation - The City should comply with the identification and reporting of unclaimed property in accordance with Chapters 556.1(12) and 556.11 of the Code of Iowa.

- (E) Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the general government function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (F) Payment of General Obligation Bonds - Principal and interest on the City's general obligation debt is to be paid from the Debt Service Fund in accordance with Chapter 384.4 of the Code of Iowa. One of the interest payments on the City's general obligation notes was paid from the Enterprise, Sewer Fund.

Recommendation - All of the City's general obligation debt service payments should be made from the Debt Service Fund as required.

- (G) Annual Financial Report - The financial information of the City's Annual Financial Report for FY2013 does not agree with the receipts and disbursements from the City's records. There were also differences noted between the Annual Financial Report and the City's records for the beginning and ending fund balances.

Recommendation - The financial information of the Annual Financial Report should agree with the City's financial records.

- (H) Tax Increment Financing - Tax increment financing collections were recorded as revenue in the General Fund rather being recorded in the Special Revenue, Urban Renewal Tax Increment Fund as required by Chapter 403.19 of the Code of Iowa. This has resulted in the Special Revenue, Urban Renewal Tax Increment Fund having a deficit cash and fund balance.

Recommendation - Tax increment financing collections are to be recorded in the Special Revenue, Urban Renewal Tax Increment Fund as required by Chapter 403.19 of the Code of Iowa. The City should also determine the amount of TIF collections that have been improperly recorded in the General Fund. A correcting transfer should be made from the General Fund to the Special Revenue, Urban Renewal Tax Increment Fund to correct the deficit balances.



CITY OF LENOX, IOWA

Detailed Recommendations - Continued

For the period July 1, 2012 through June 30, 2013

- (I) Annual Urban Renewal Report - The Annual Urban Renewal Report for FY2013 did not agree with the City's records. The beginning and ending TIF Fund cash balances and TIF debt outstanding reported on the Annual Urban Renewal Report do not agree with the City's records in the Special Revenue, Urban Renewal Tax Increment Fund.

Recommendation - The amounts used to complete the Annual Urban Renewal Report should be revised to agree with the activity of the City's Special Revenue, Urban Renewal Tax Increment Fund, and the current TIF debt outstanding.

- (J) Transfers - The City's records show that transfers between funds are not being recorded properly because the transfer accounts do not balance.

Recommendation - The City should make sure that transfers are properly recorded in the appropriate account.

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